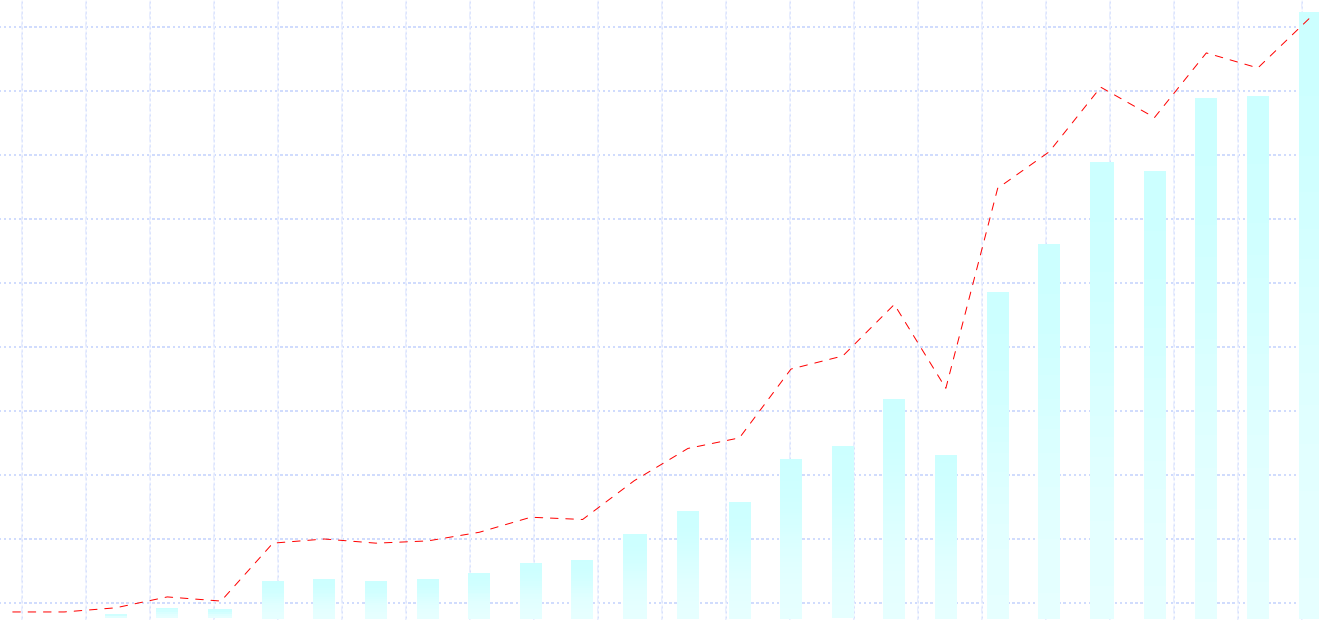


# Rollbacks – Past and Future



Jeff Robinson - Fiscal Services Division

Legislative Services Agency

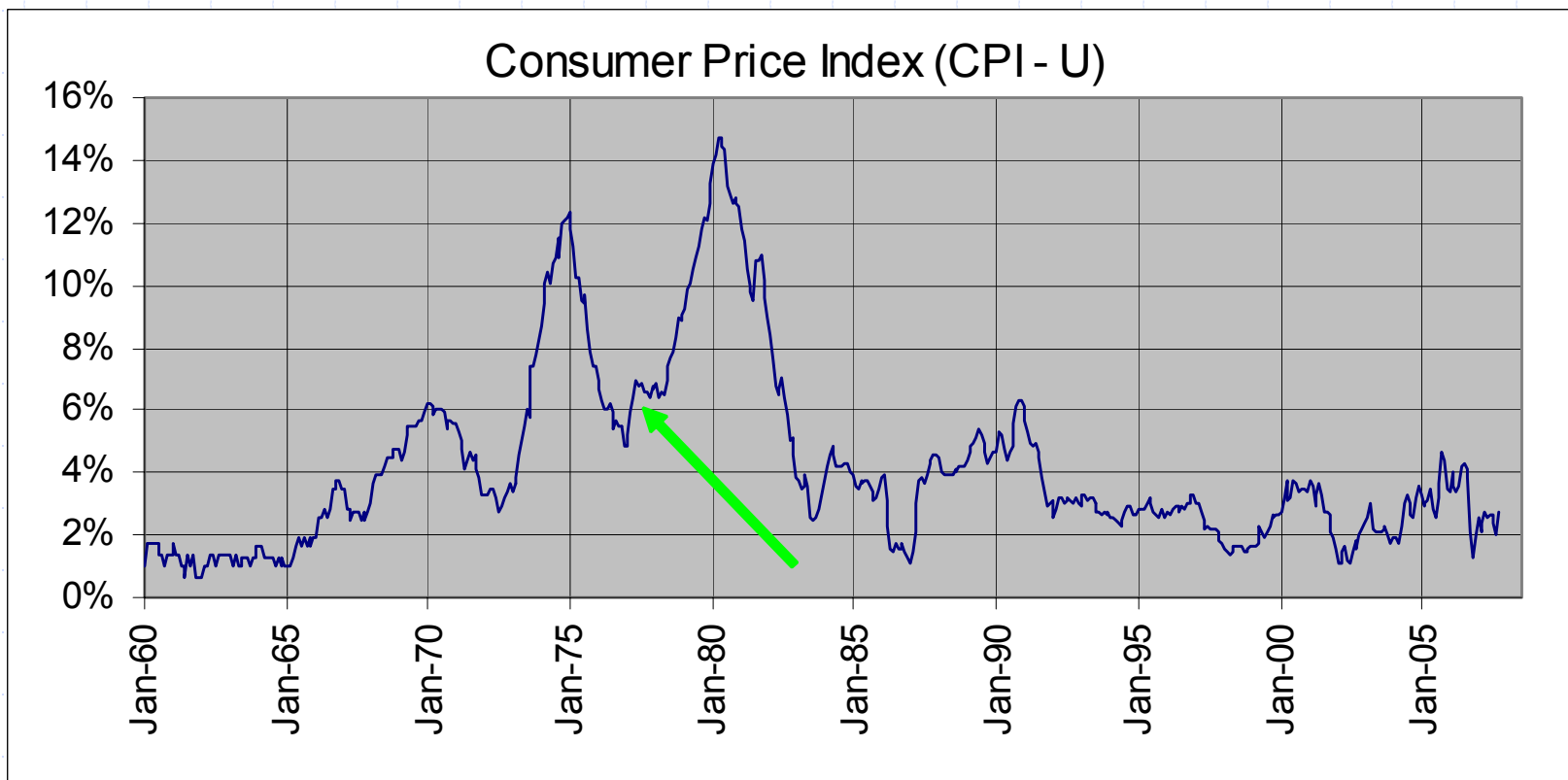
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Property Tax Interim Committee

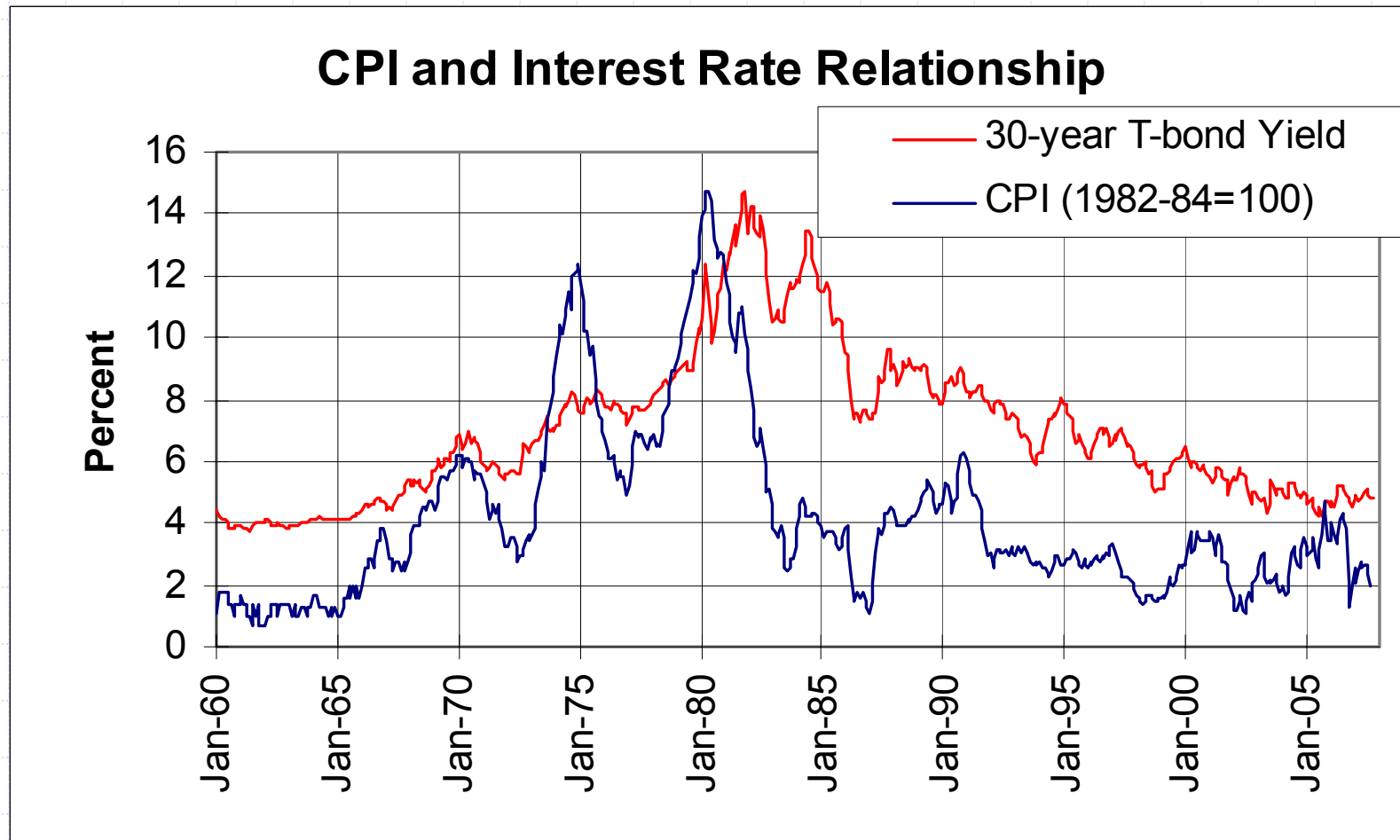
November 7, 2007

# Inflation History

The Arrow Indicates Passage of Legislation Creating Rollbacks and Productivity



# History – CPI and Interest Rates



# FY 2008 Statistics by Property Class

## Assessment Year 2006 (Fiscal Year 2008) Dollars in Billions

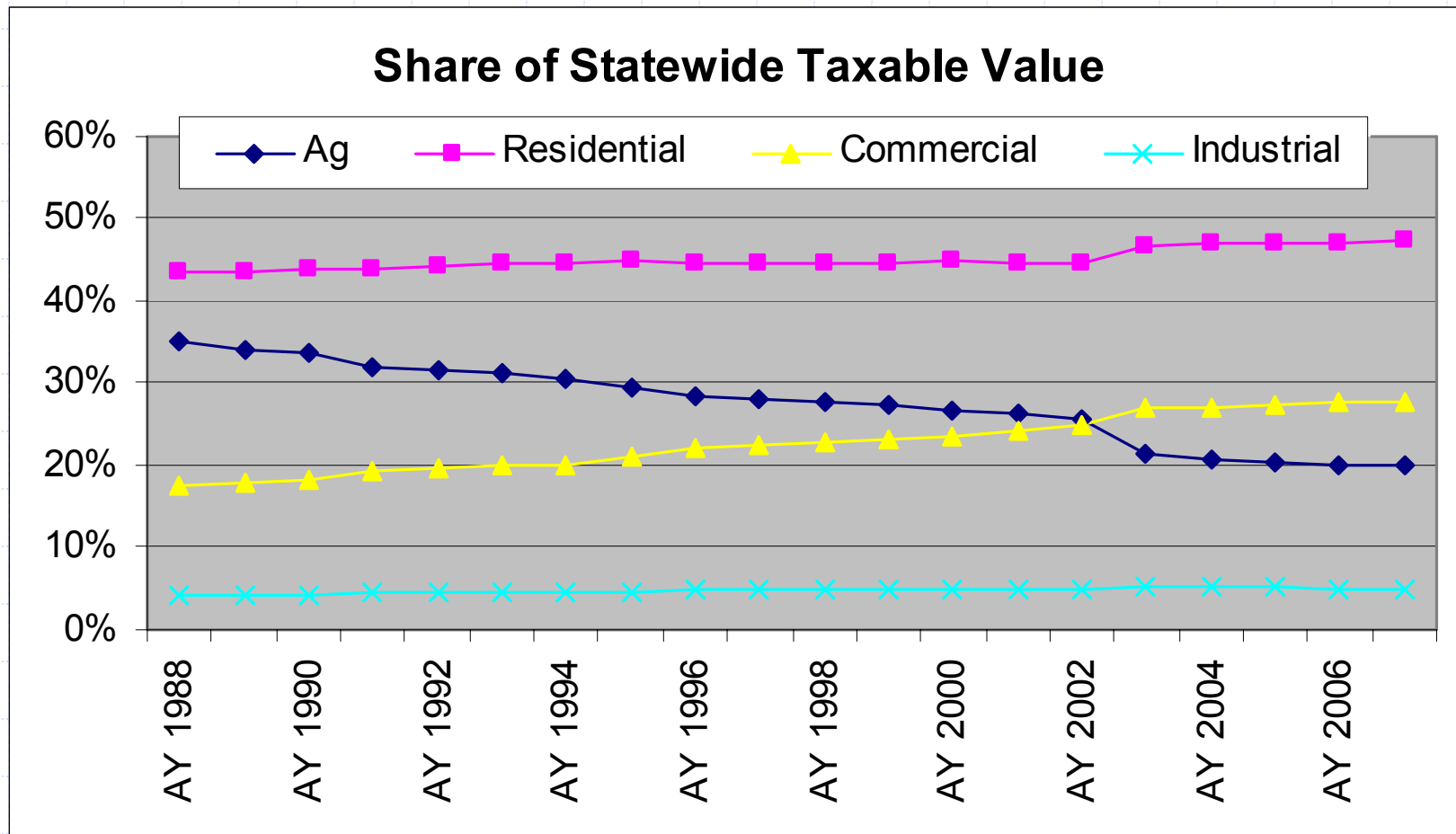
Class	Assessed Value	Rollback Percentage	Taxable Value	Taxes Paid	Ag Productivity Factor	Effective Tax Rate *
Residential	\$111.5	45.5596%	\$50.8	\$1.8		1.6%
Commercial	29.9	100.0000%	29.9	1.1		3.8%
Industrial	5.0	100.0000%	5.0	0.2		3.6%
Agriculture	21.6	100.0000%	21.6	0.6	25%	0.7%
Other	3.8	100.0000%	3.8	0.1		2.9%
Total	\$171.9		\$111.1	\$3.8		2.2%

The Effective Tax Rate of agricultural property is adjusted for the ratio of the Ag Productivity Formula value per acre to the statewide market value per ag acre. That ratio is currently calculated to be about 25%.

Part of the difference in effective tax rates is due to property location (urban versus rural).

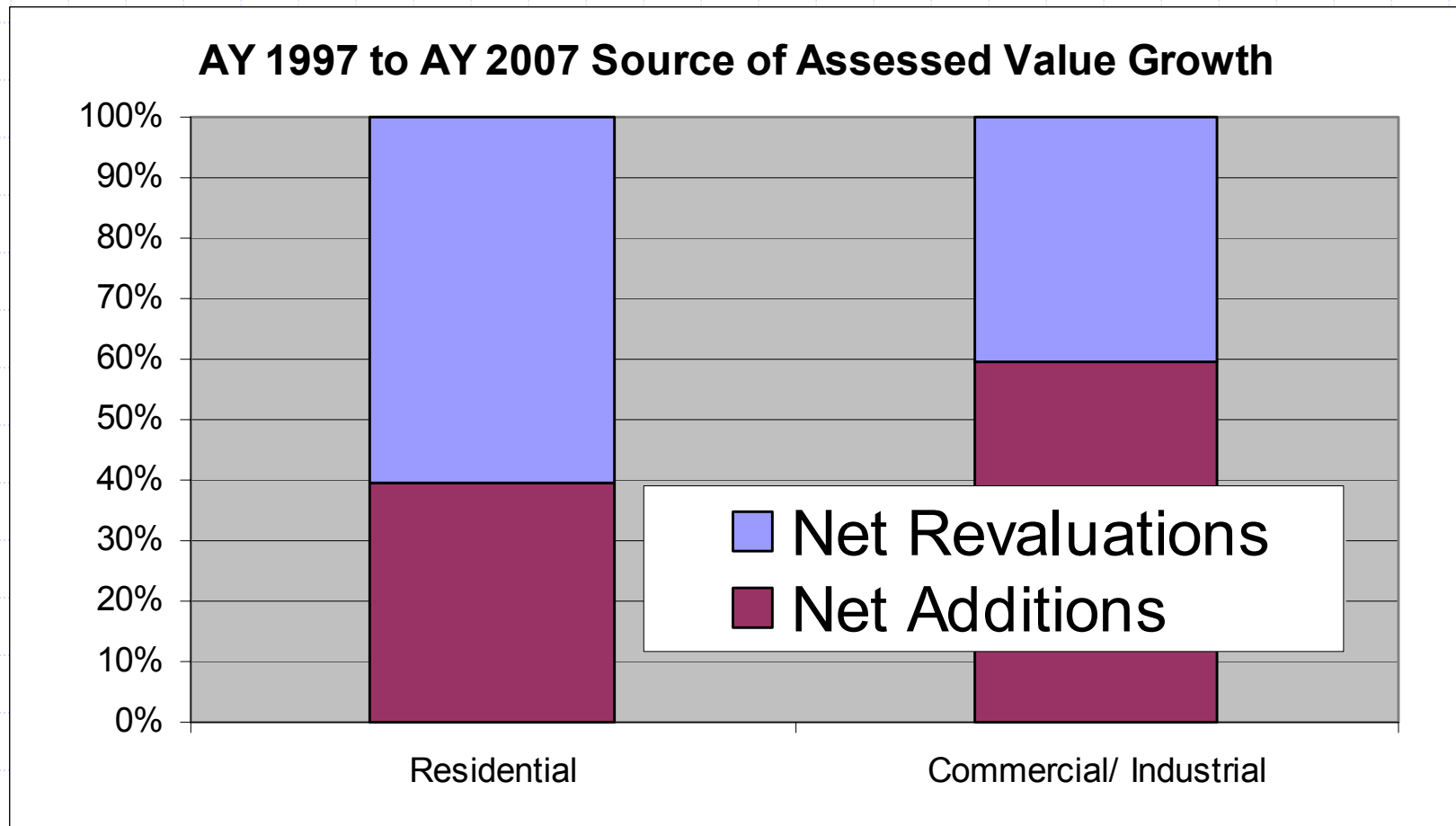
# Share of Taxable Value by Class

Commercial's share of the burden been increasing and so has residential's.

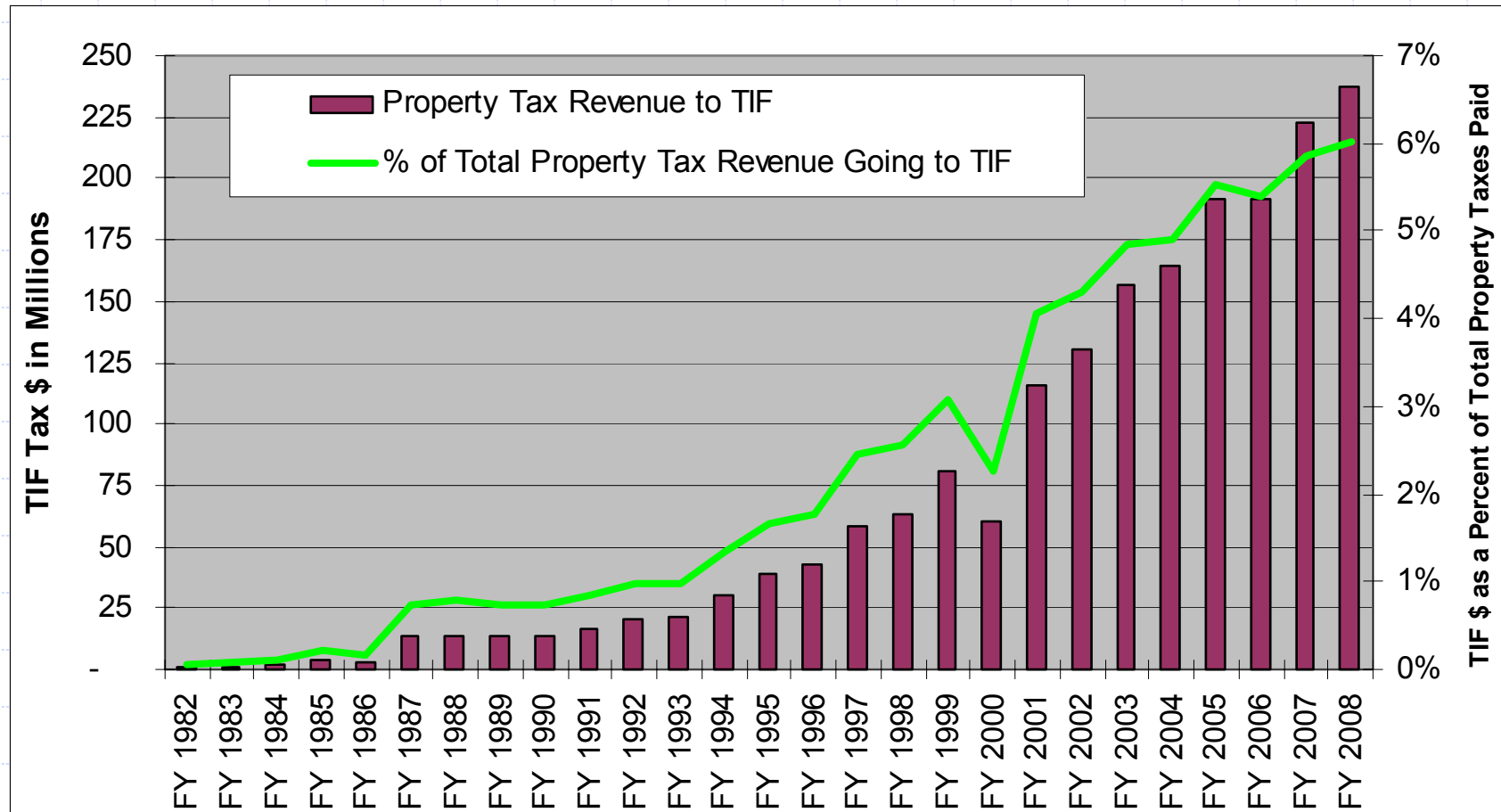


## Percent of Value Due to New Construction Since AY 1988

Part of the reason commercial's share has grown relates to new construction.



# Tax Increment Financing Growth – Commercial's share is not what it seems - Commercial and Industrial property benefit from substantial growth in TIF



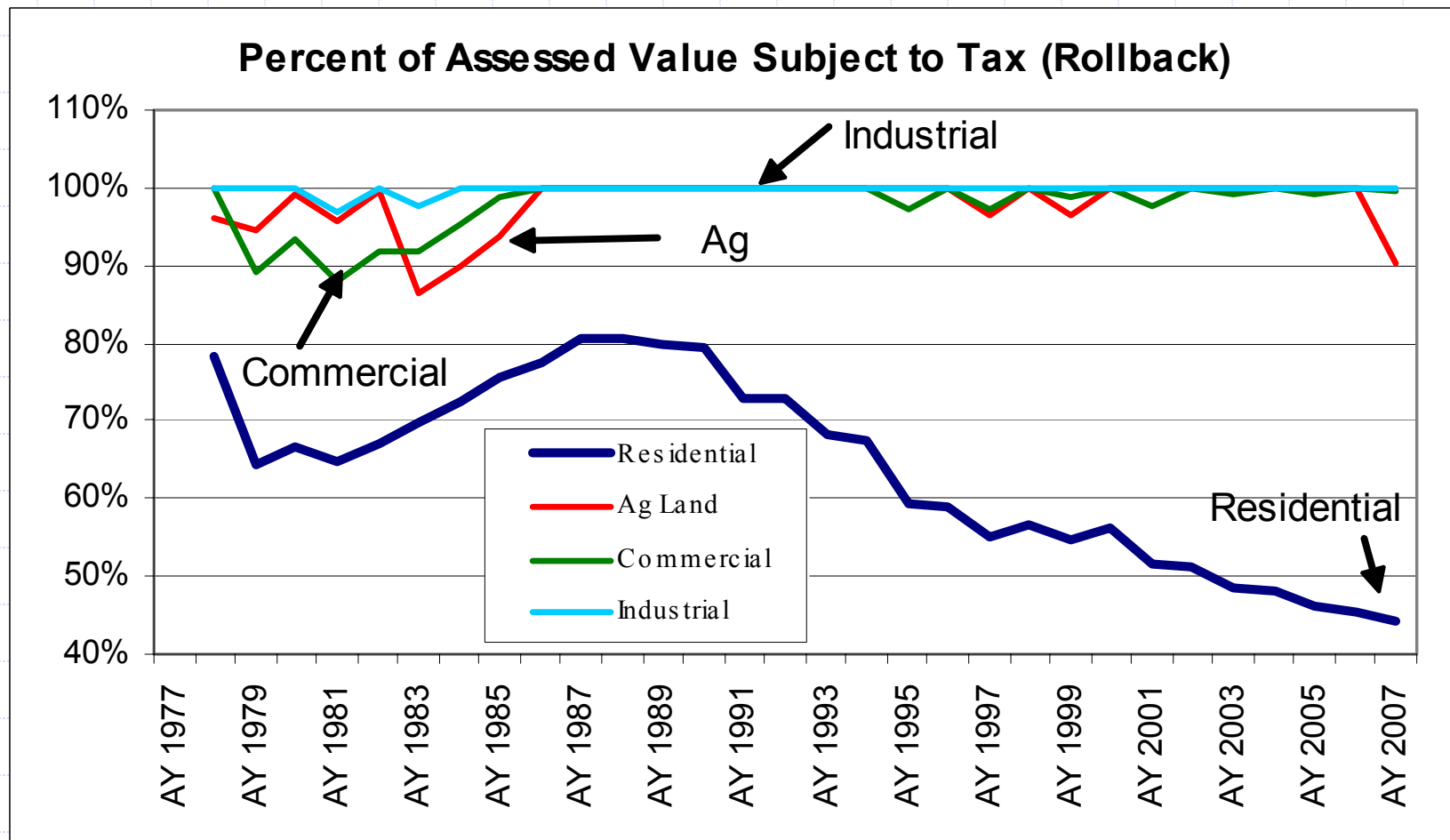
# Tax Abatements and Other Exemptions

Commercial interests also benefit significantly from tax abatement

- ◆ FY 2008 Tax Abatement and Other Exemption Taxable Value Equaled \$2.0 Billion.
- ◆ For Comparison, FY 2008 TIF Increment Taxable Value Equaled \$7.3 Billion



# Rollback History - Actual



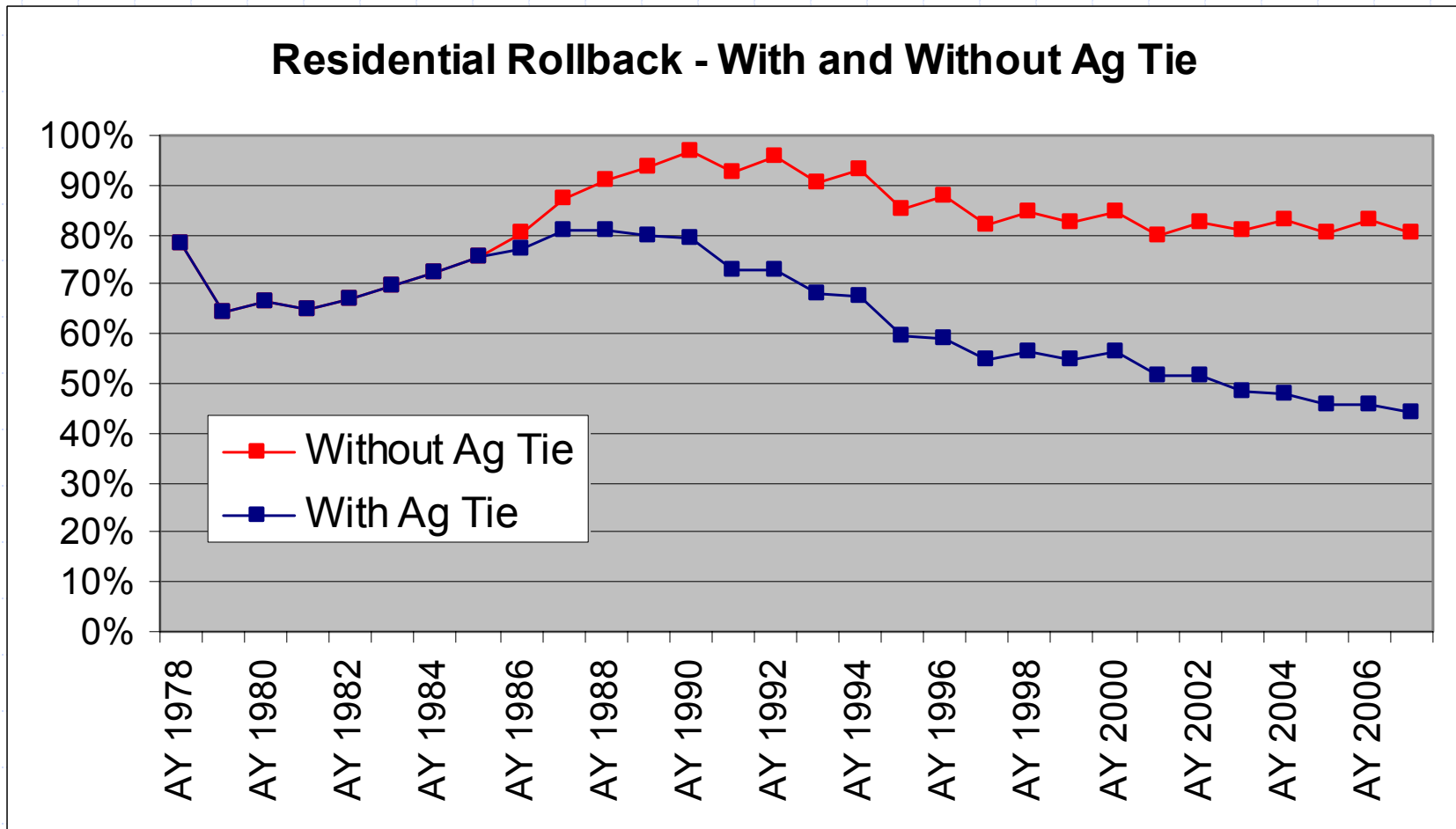
# Taxable Value Limitation (Rollback)

- ◆ Iowa law limits **statewide** growth in taxable value **due to revaluation of existing property** to no more than 4.0% per year.
  - The rollback calculation determines the percentage of a property's actual value that will be taxable that year (productivity value, not actual value for ag).
  - The limitation is calculated from statewide property values.
  - The limitation applies individually by class to residential, commercial, industrial, and agricultural land & ag buildings.
  - Residences located on ag property are included in the residential calculation.
  - Any increase for a class above 4.0% growth in taxable value produces (or adds to) a rollback.
  - Once calculated, the rollback applies to new construction values also.
  - Example: If commercial taxable value due to revaluation grows 6.0% in a year, the rollback will limit growth to 4.0% and the 2.0% difference will produce a commercial rollback to 98.00%.

# Taxable Value Limitation – Ag Tie

- ◆ In addition to the 4.0% limit, residential and ag property will be further limited if the taxable value growth due to revaluation in the other class is less than 4.0%.
  - So far, residential growth has never limited ag taxable values, and should not limit ag growth in the foreseeable future.
- ◆ Examples:
  - If residential taxable value grows 6.0% and ag taxable value grows 2.0%, residential taxable value will be allowed to grow only 2.0%.
  - If residential grows 6.0% and ag property falls 4.0%, residential taxable value will not grow.

# Rollback History – Ag Tie Impact



# Rollback Impact on Property Tax Bill- Analysis

## ◆ Assume for the analysis:

- ◆ There are only two properties in the State, one residential and one commercial.
- ◆ Both properties are valued at \$100,000 in AY 1998 and both grow in assessed value at the average actual statewide rate for the class from AY 1998 through AY 2006.

## ◆ Facts:

- ◆ The average property tax rate for commercial and residential property combined in AY 1998 was \$30.30 and was \$36.28 in AY 2006.
- ◆ Inflation equaled 22.7% over the eight-year period.
- ◆ The residential rollback was 56.4789% for AY 1998 and 45.5596% for AY 2006.
- ◆ Residential Tax Bill:
  - AY 1998=\$1,711, AY 2006=\$2,309
- ◆ Commercial Tax Bill:
  - AY 1998=\$3,030, AY 2006=\$4,574
- ◆ Local Govt. Revenue from the two properties:
  - AY 1998=\$4,741, AY 2006=\$6,883

# Rollback Impact on Property Tax Bill

## Example Residential & Commercial Properties – *Updated After 11/7/2007 Presentation*

### Property Tax Owed on Residential & Commercial Property with \$100,000 Assessed Values in AY 1998

Assumes Statewide Averages for Value Growth and Tax Rates Through AY 2006

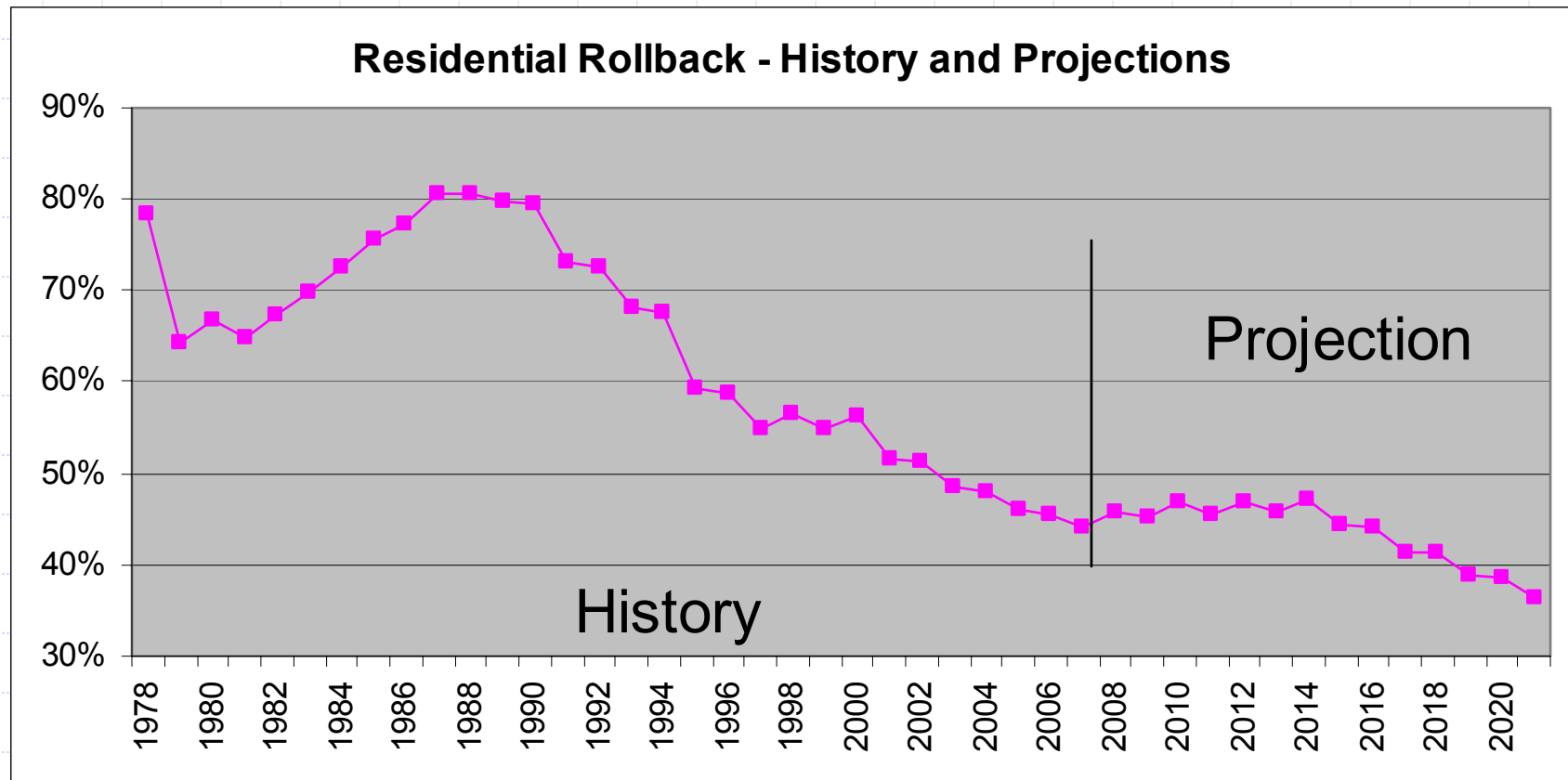
	Commercial Tax Bill	Residential Tax Bill	Total Taxes
AY 1998 - No Rollbacks	\$2,371	\$2,371	\$4,741
Rollback Impact through AY 1998	660	-660	0
AY 1998 Tax Bill	3,030	1,711	4,741
Inflation Impact AY 98 through AY 06	539	539	1,077
Other Rate Increases AY 98 through AY 06	532	532	1,065
Rollback Impact AY 98 through AY 06	473	-473	0
Growth Total	1,544	598	2,142
AY 2006 Tax Bill	<u>\$4,574</u>	<u>\$2,309</u>	<u>\$6,883</u>
Assessed Value AY 1998	\$100,000	\$100,000	\$200,000
Assessed Value AY 2006	\$126,080	\$139,691	\$265,771
Taxable Value AY 1998	\$100,000	\$56,479	\$156,479
Taxable Value AY 2006	\$126,080	\$63,643	\$189,723

# Rollback Impact on Property Tax Bill

Estimated Statewide Impact on Commercial & Industrial Properties  
***Updated After 11/7/2007 Presentation***

- ◆ At \$473 rollback impact for a \$126,080 commercial property, the impact is \$3.8 per thousand of taxable valuation.
- ◆ A total of \$34.9 billion in taxable commercial and industrial property existed in AY 2006, so the overall rollback impact from AY98 through AY 06 is estimated to be \$132.6 million (\$34.9 billion X \$3.80 per thousand).
- ◆ Adding the pre-AY98 rollback impact adds \$181.7 million, for a total of \$314.3 million.

# Residential Rollback – What does the Future Look Like?





**Ag Productivity Formula** – Agriculture and residential taxable value will grow 4.0% for both FY 2009 through FY 2012 and probably for at least two more years.

### Corn and Soybean Productivity Inputs - Individual Years

		Corn Price	Yield	Acres Harvested	Value of Production
FY 2003	CY 1999	\$ 1.72	149	11,800,000	\$ 3,024,104,000
FY 2004	CY 2000	1.75	144	12,000,000	3,024,000,000
FY 2005	CY 2001	1.90	146	11,400,000	3,162,360,000
FY 2006	CY 2002	2.22	163	11,850,000	4,288,041,000
FY 2007	CY 2003	2.37	157	11,900,000	4,427,871,000
FY 2008	CY 2004	1.99	181	12,400,000	4,466,356,000
FY 2009	CY 2005	1.94	173	12,500,000	4,195,250,000
FY 2010	CY 2006	3.15	166	12,350,000	6,457,815,000
FY 2011	CY 2007	<b>2.75</b>	180	13,950,000	6,905,250,000

		Soybean Price	Yield	Acres Harvested	Value of Production
FY 2003	CY 1999	\$ 4.53	44.5	10,750,000	\$ 2,167,038,750
FY 2004	CY 2000	4.49	43.5	10,680,000	2,085,964,200
FY 2005	CY 2001	4.35	44	10,920,000	2,090,088,000
FY 2006	CY 2002	5.54	48	10,400,000	2,765,568,000
FY 2007	CY 2003	7.70	32.5	10,550,000	2,640,137,500
FY 2008	CY 2004	5.76	49	10,150,000	2,864,736,000
FY 2009	CY 2005	5.54	52.5	10,000,000	2,908,500,000
FY 2010	CY 2006	6.25	50.5	10,100,000	3,187,812,500
FY 2011	CY 2007	<b>8.00</b>	52.0	8,520,000	3,544,320,000

# Taxable Value Growth in the Next Six Years will Exceed the Previous Six Years.....By a Lot

## Taxable Value Growth by Class

Dollars in Billions

### Most Recent Six Years

	Actual FY 2002	Actual FY 2008	Actual Growth \$	Growth %	Average Annual Growth
Residential	\$42.1	\$51.7	\$9.6	22.8%	3.5%
Commercial	21.9	30.6	8.7	39.7%	5.7%
Industrial	4.7	5.5	0.8	17.0%	2.7%
Agricultural	25.1	21.9	-3.2	-12.7%	-2.2%
	<u>\$93.8</u>	<u>\$109.7</u>	<u>\$15.9</u>	<u>17.0%</u>	<u>2.6%</u>

### Projected Next Six Years

	Actual FY 2008	Projected FY 2014	Projected Growth \$	Growth %	Average Annual Growth
Residential	\$51.7	\$75.4	\$23.7	45.8%	6.5%
Commercial	30.6	42.4	11.8	38.6%	5.6%
Industrial	5.5	6.5	1.0	18.2%	2.8%
Agricultural	21.9	27.4	5.5	25.1%	3.8%
	<u>\$109.7</u>	<u>\$151.7</u>	<u>\$42.0</u>	<u>38.3%</u>	<u>5.6%</u>

#### Notes:

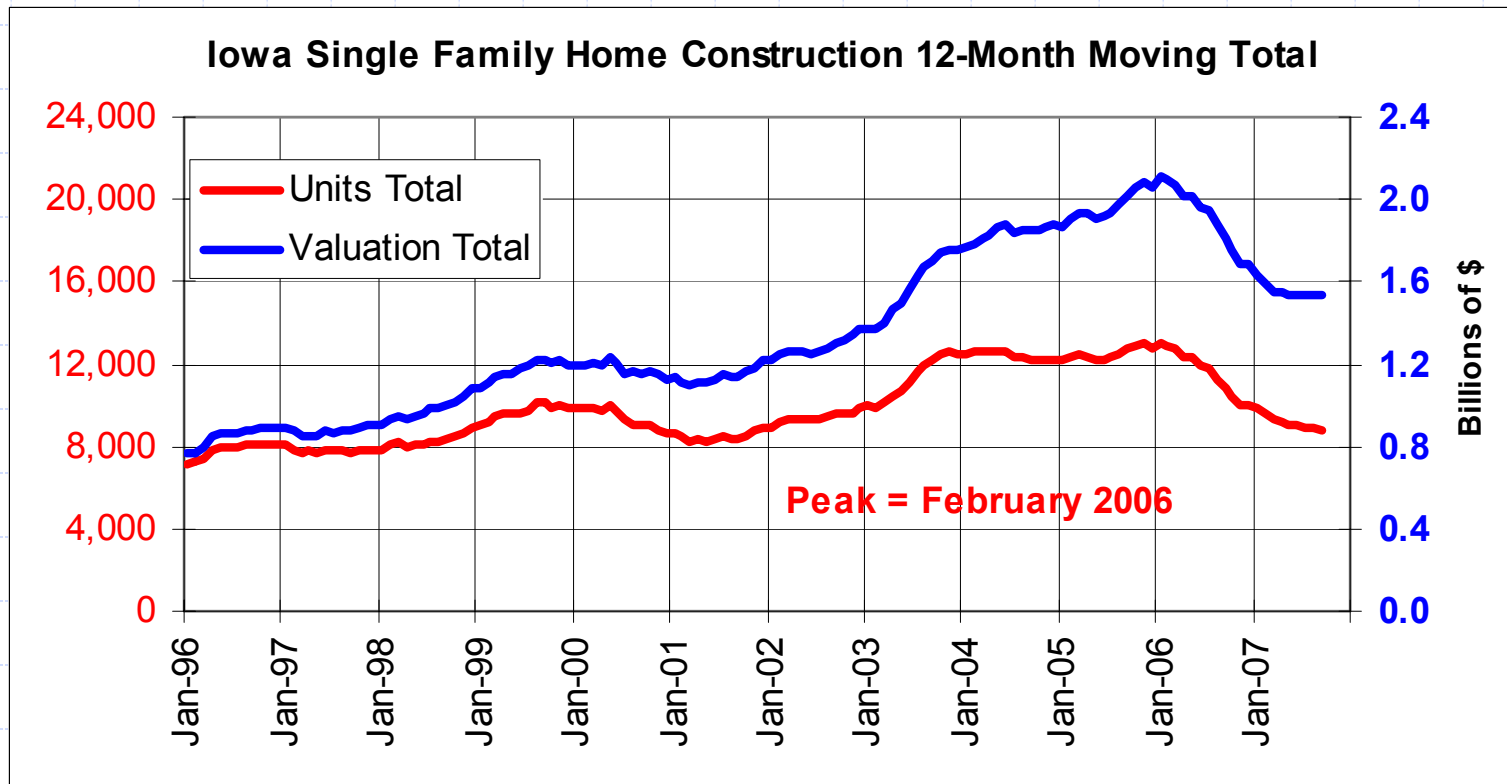
Amounts are prior to tax abatement and other tax exemptions.

Smaller property classes are not shown.

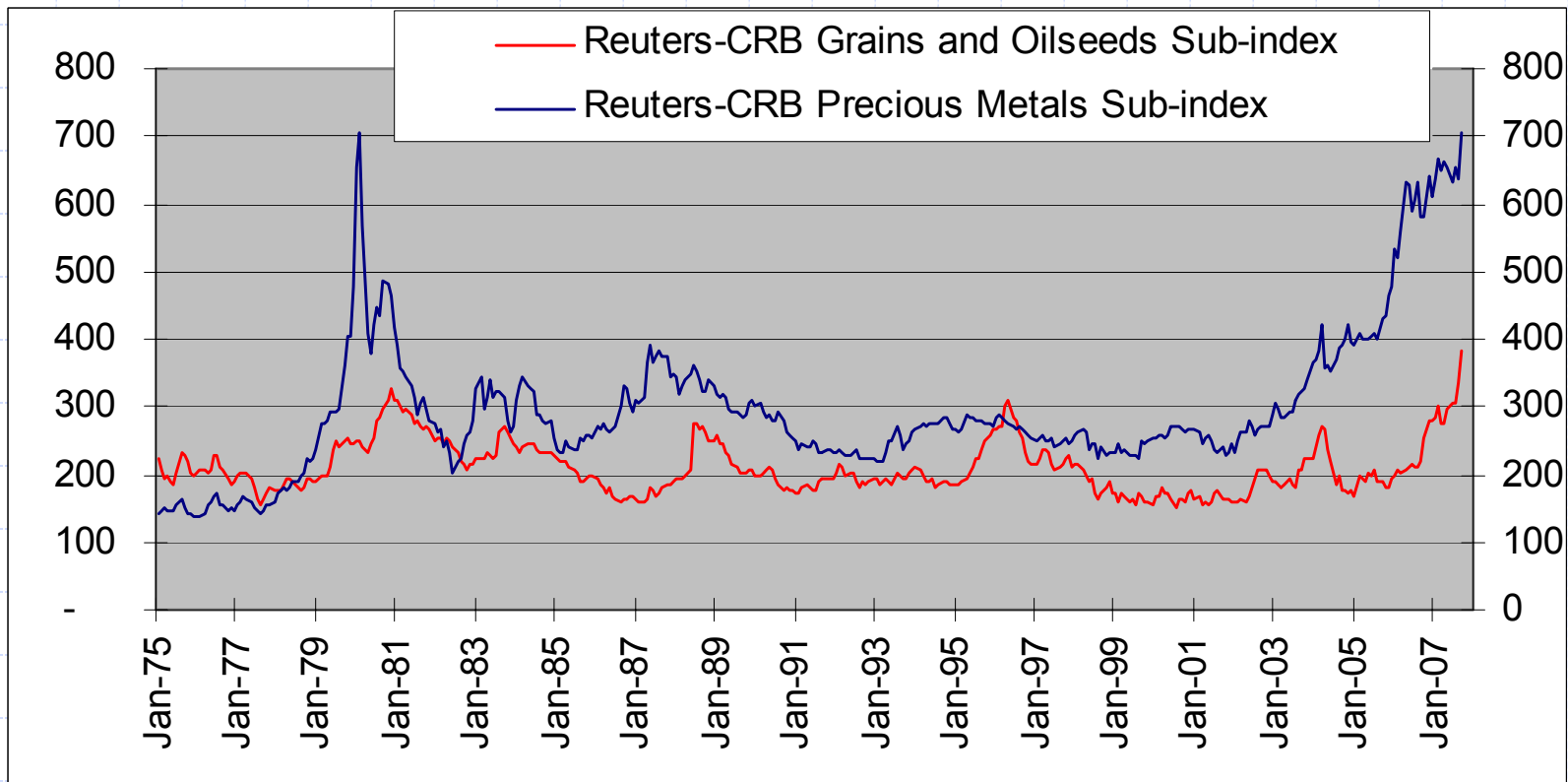
## Cautionary Notes

- ◆ Slowdown in Home Construction
- ◆ Significant Inflation – Impact on Assessed Value
- ◆ Significant Crop Failure CY 2008 and CY 2009
- ◆ Massive Increases in Farm Input Prices
- ◆ Iowa's Working Age Population

# Iowa Single Family Building Permits



# Significant Inflation Risk?



# Shrinking Working Age Population

